



JENNIFER M. GRANHOLM  
GOVERNOR

STATE OF MICHIGAN  
OFFICE OF FINANCIAL AND INSURANCE SERVICES  
DEPARTMENT OF LABOR & ECONOMIC GROWTH  
ROBERT W. SWANSON, ACTING DIRECTOR

LINDA A. WATTERS  
COMMISSIONER

## BILL ANALYSIS

**BILL NUMBER:** House Bill 5608 (As Introduced)

**TOPIC:** Interstate Insurance Product Regulation Compact

**SPONSOR:** Representative Barbara Farrah

**CO-SPONSORS:** Rep. Hood, Anderson, Adamini, Brown, Bennett, Polidori, Spade, Wojno, Leland, Condino, Accavitti, Hopgood, Plakas, Espinoza, Clemente, McConico, Hune, Gaffney, Hildenbrand, Mortimer, David Law, Marleau, Sheen, Ball, Clack and Lemmons, III

**COMMITTEE:** Committee on Insurance

**DATE:** February 17, 2006

### POSITION

The Office of Financial and Insurance Services supports this legislation.

### PROBLEM/BACKGROUND

Insurers, particularly those who sell life and other wealth-protection insurance on a multi-state basis, have been disadvantaged as compared to their competitors in the banking and securities industries that have access to federal regulators that enable them to get one regulatory approval for products that may be used across the nation.

Under the current state-based regulatory system, companies wishing to design and market new products must seek regulatory approval in each state individually—a time consuming and costly process.

To address speed to market concerns, states have joined together to form the Interstate Insurance Product Regulation Compact (Compact) to provide insurers with “one stop shopping” for product approval. Once a product is approved by the Compact, it could be marketed in *any* of the participating states without further approvals.

Participating states will govern the Compact Commission, a multi-state public body that will create uniform standards for specific insurance products; serves as a central filing point; and provide filing review.

## **DESCRIPTION OF BILL**

The proposed legislation will add a new chapter to the Insurance Code.

The Compact would permit the filing of four product lines with the Commission—individual and group annuities, life insurance, disability income, and long-term care insurance. New lines could be added in the future, although states could opt out by passing a state law or rule.

The Commission will create the uniform standards that will apply to any product filed with the Commission. For a uniform standard to be adopted, it would require the approval of at least two-thirds of the Management Committee and two-thirds of the states participating in the Compact.

The Model Act establishes a multi-state Commission, which would include a member from each member state. The Commission would oversee the Compact, its organization, when it will meet, its rules and operating procedures and the financial structure of the Commission, as well as procedures for compliance enforcement under the provisions of the Compact. The Commission will develop uniform standards for product lines, receive and review filed products, and approve those product filings according to applicable uniform standards, as well as advertisements related to those products. The actions of the Commission will be binding in the compacting states as provided for in the Compact.

The Compact will have legislative and advisory committees to monitor its operations and make recommendations to the Commission. The advisory committees will include consumer and insurance industry representatives.

The Model Act sets up procedures for filing of forms by the companies, dispute resolution among the states, provisions for the states to opt-out of uniform standards for certain products, and provisions for states to withdraw from the Compact.

The Commissioner of each member state retains the power to regulate market activities of the insurance companies that choose to file a product through the Compact.

Provisions have been included to assure member states that the powers of the Commission do not interfere with a state's general consumer fraud statutes, deceptive or unfair trade practices acts, claims handling laws or any other statute that protect the rights of the consumer.

## **SUMMARY OF ARGUMENTS**

### **Pro**

Currently, 20 jurisdictions have joined the Compact. The Compact will become operational once 26 states or states representing 40 percent of the premium volume for life insurance, annuities, disability income and long-term care insurance, have signed on. Once the Compact becomes operational, multi-state companies writing these four lines will be able to take advantage of this streamlined filing option. If Michigan enacts this law, companies that want to use a Compact-approved policy form in Michigan will be able to do so, and Michigan will have the assurance that these policy forms have met the standards set forth by the Compact.

If Michigan is one of the first 26 states to enact the Compact, it will almost assuredly become a member of the Management Committee of the Commission. (This expectation is due to the size of premium volume for individual and group annuities, life, disability income, and long term care insurance products written annually in the state.) The Management Committee (of which there will be 14 members), will be key in the operation, planning, management, form review process and coordination of the Compact.

As it now stands, Michigan does not require filing of most of these forms, so allowing a review process on a national standard basis should actually contribute to providing more protection for Michigan citizens that purchase these products. Although companies can choose to file their forms with each individual state, national companies that want to write a product in several states would probably choose to file with the Compact, thus giving Michigan the benefit of the Compact regulations.

Adopting and joining the Compact furthers the goal of states to develop speed-to-market systems. Michigan has been on the forefront of this process for several years, and this Compact is one more step toward achieving a more efficient process for insurers to market their insurance products while maintaining protections for the purchasers of those products.

If the Compact does not go into effect, the federal government may take action to form a national insurance regulatory agency. Not only would this action preempt state regulation of insurance products, the states would lose money from assessment of filing fees and fines for violation of the Insurance Code.

### **Con**

Because the Compact has not become operational yet, there remain unanswered questions regarding the specific requirements of product regulation. These questions will remain unanswerable until the Compact becomes operational and the product review standards for each of the product lines are promulgated.

## **FISCAL/ECONOMIC IMPACT**

OFIS has identified the following revenue or budgetary implications in the bill as follows:

(a) To the Office of Financial and Insurance Services:

Budgetary: Michigan has already been using the electronic filing system required by adoption of the Compact, so nothing new or costly will have to happen to implement the system for use.

Revenue: Since Michigan does not currently require filing of most of these lines; no impact on revenue should be realized.

Comments:

(b) To the Department of Labor and Economic Growth: None

Budgetary:

Revenue:

Comments:

(c) To the State of Michigan: None

Budgetary: The Compact will be financed with filing fees paid by the insurers, as well as donations and grants from other agencies such as the National Association of Insurance Commissioners.

Revenue:

Comments:

(d) To Local Governments within this State: None

Comments:

## **OTHER STATE DEPARTMENTS**

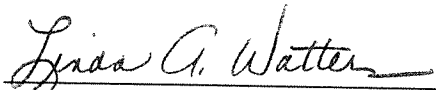
None known.

**ANY OTHER PERTINENT INFORMATION**

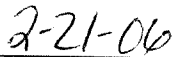
The National Conference of Insurance Legislators, the National Conference of State Legislators, the National Association of Insurance Commissioners and the American Council of Life Insurers support the adoption of the Compact in Michigan.

**ADMINISTRATIVE RULES IMPACT**

The OFIS has general rulemaking authority under the Insurance Code of 1956, 1956 PA 218.



Linda A. Watters  
Commissioner



Date